

Business Review January-September 2018

Innovator in construction business



**Economically driven
construction**

Cost-conscious
design

Standardised
solutions

Industrial
manufacturing

Digital processes and service chain

Motivated employees

Changes in
the business
environment

Digitalisation
Social welfare and
healthcare reform

Urbanisation

Requirements for
renovation and changes

Ecologically efficient

Cost-efficiency

Aging population

Climate change



Our customer promise: the most desired partner in the market

- 1 One agreement**
- 2 Fixed price**
- 3 Agreed move-in date**
- 4 Agreed content and quality**

January-September 2018 in brief

Growth continued, net sales grew, operating profit weakened

The result good level for the sector, lower than Lehto expected

Housing and Business Premises grow as planned

Social Care and Educational Premises and Building Renovation: profitability issues in projects

Net sales, M€

489,9

Net sales growth

46,1 %

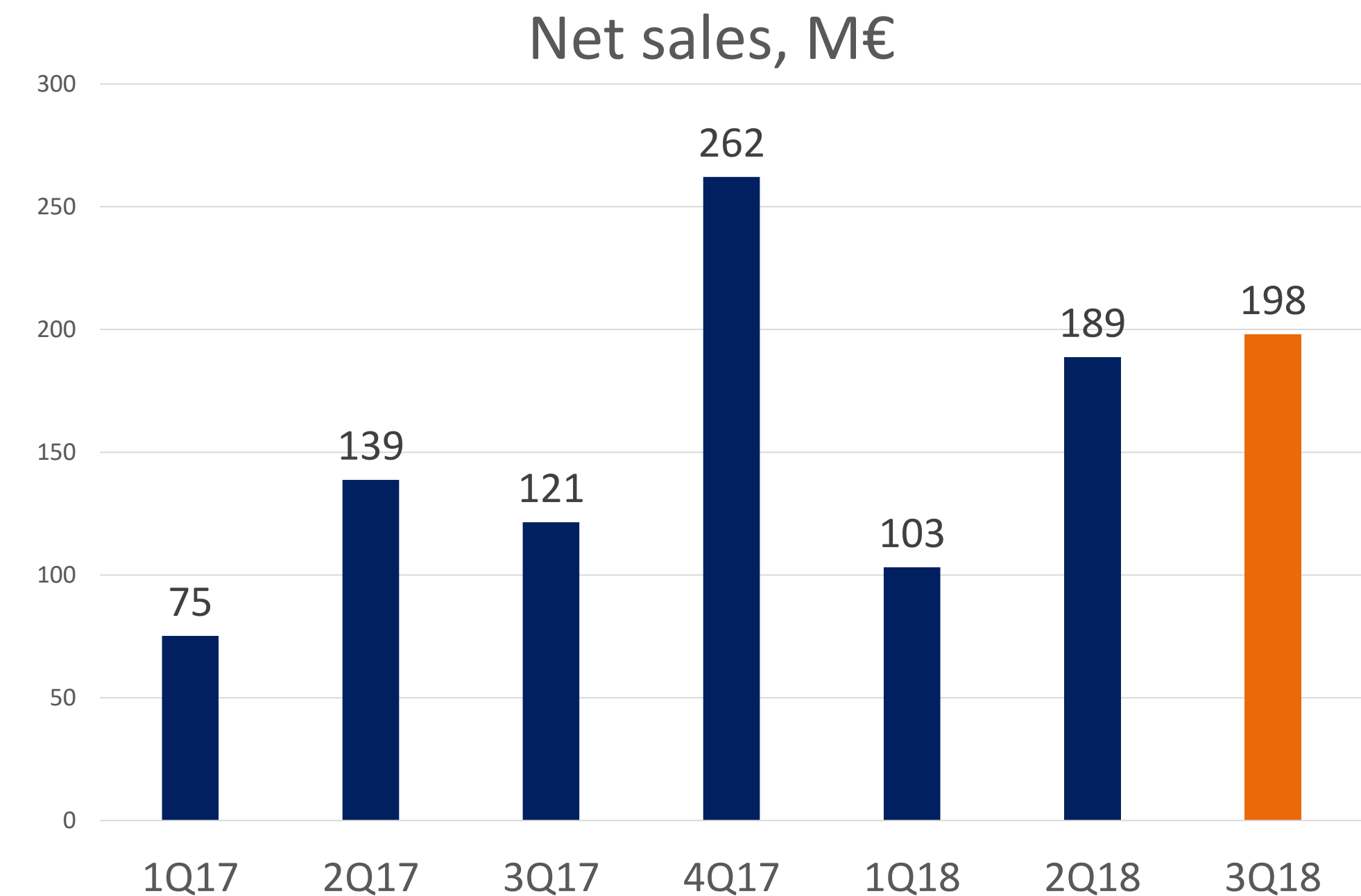
Operating profit

4,5 %

Net sales grew

January - September 2018

- Compared to the corresponding period of the previous year, Lehto Group's net sales grew by 46.1%, to EUR 489.9 (335.4) million.
- Net sales grew in the Business Premises, Housing, and Social Care and Educational Premises service areas, but fell slightly in the Building Renovation service area.

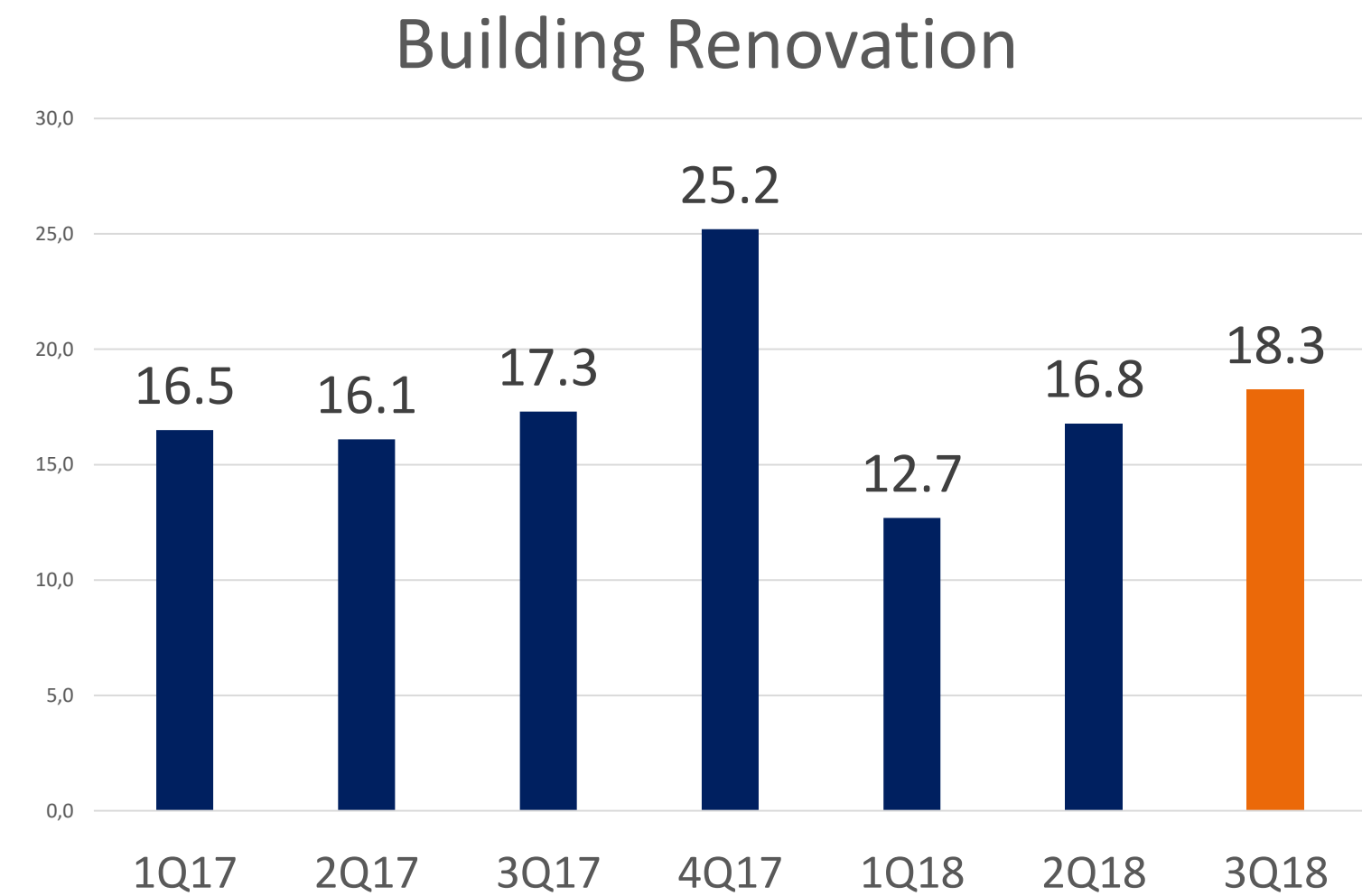
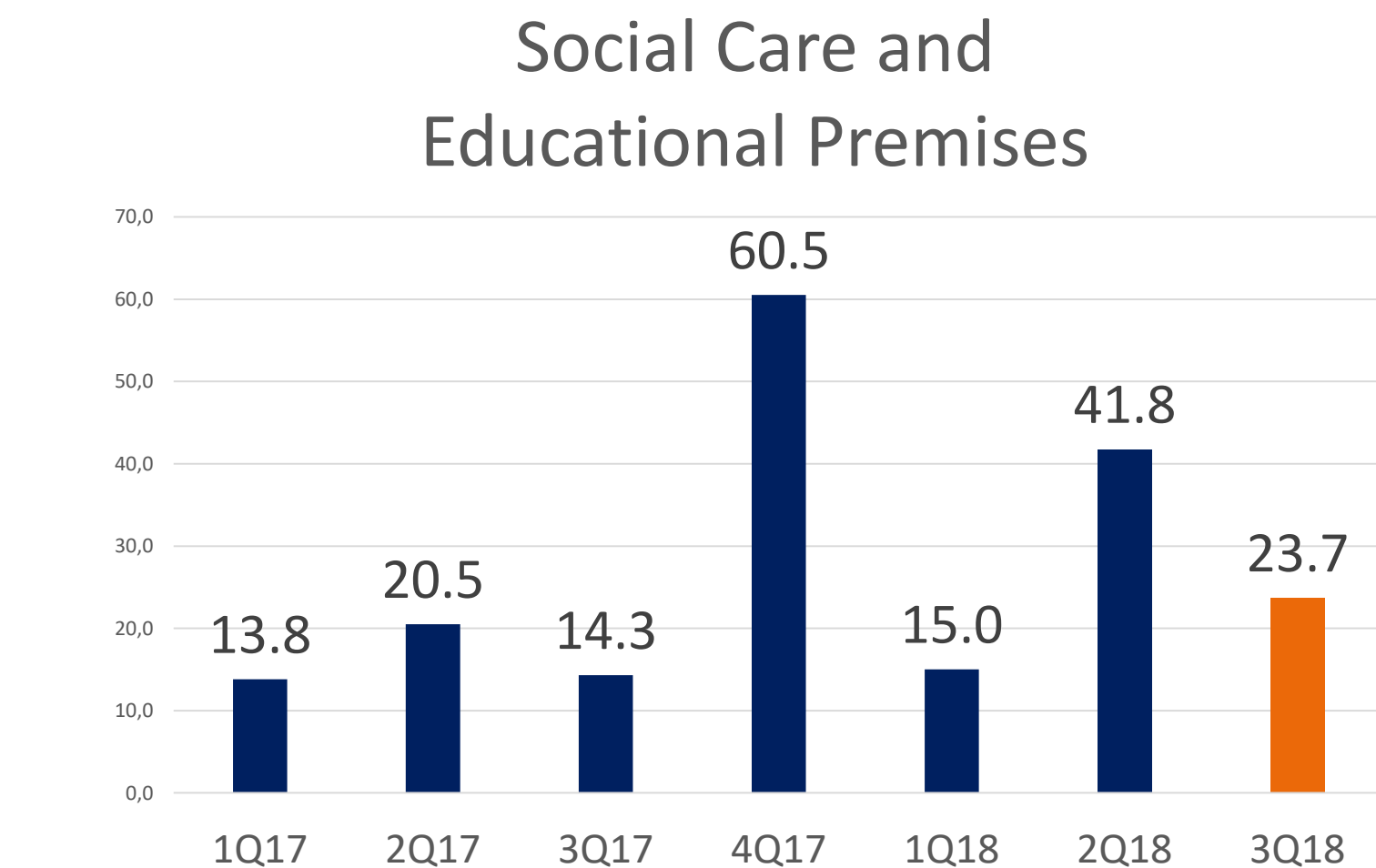
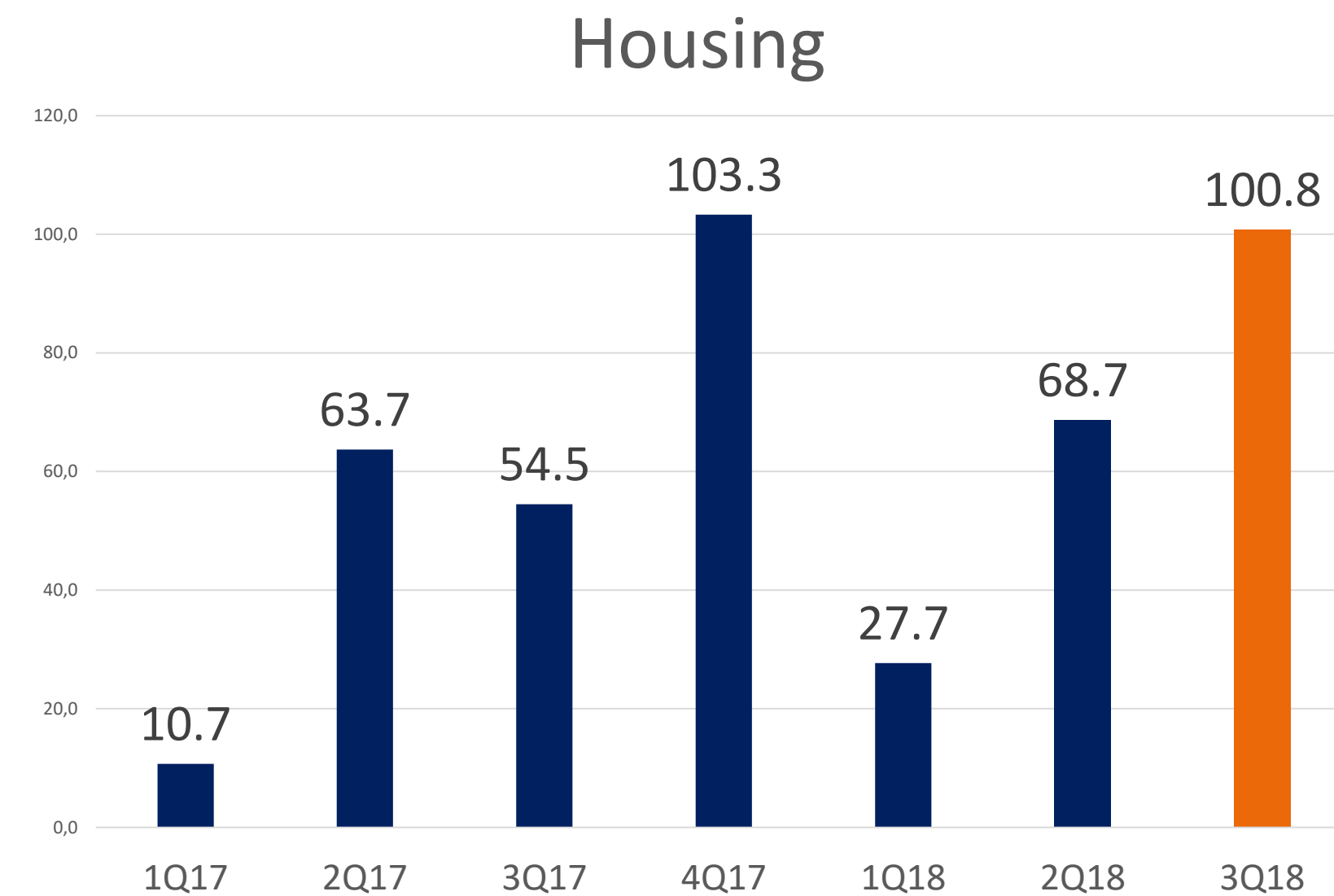
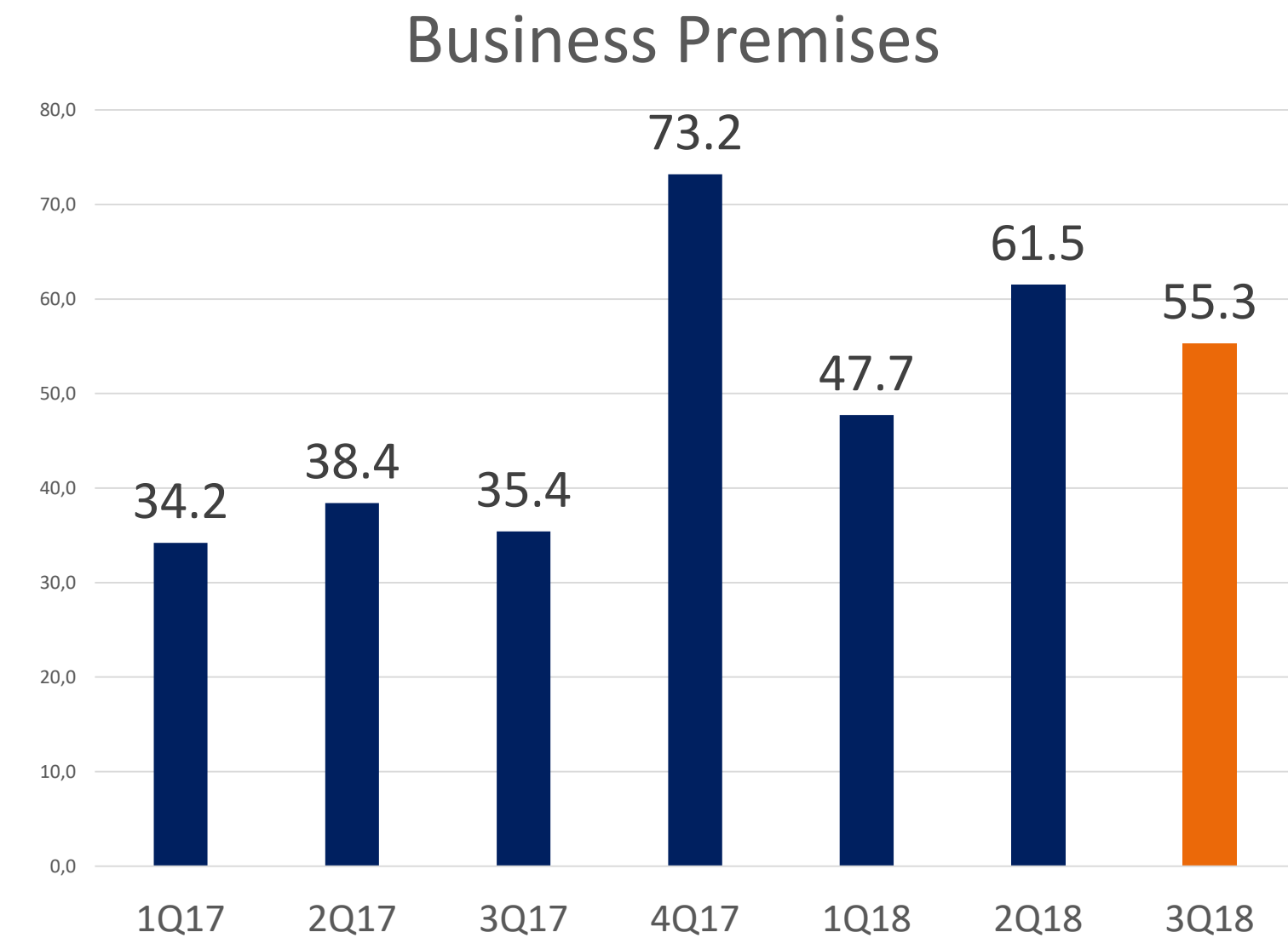


Net sales by service area

MEUR	1-9/2018	1-9/2017	Change	1-12/2017
Business Premises	164.5	108.0	52.3%	181.2
Housing	197.1	128.9	53.0%	232.2
Social Care and Educational Premises	80.5	48.6	65.6%	109.1
Building Renovation	47.7	49.9	-4.3%	75.1
TOTAL	489.9	335.4	36.4%	597.6



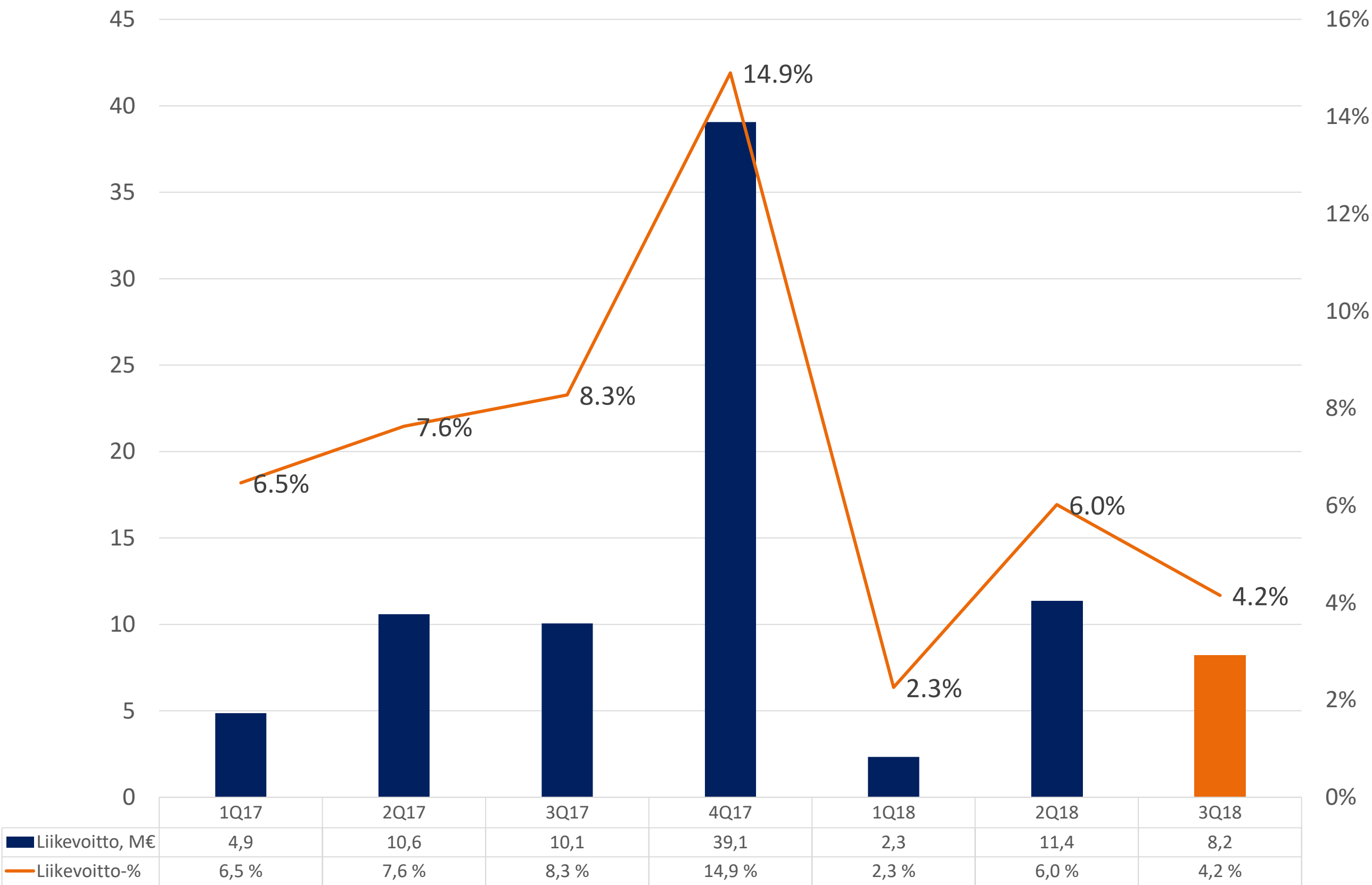
Net sales by quarter and service area (EUR million)



Operating profit decreased

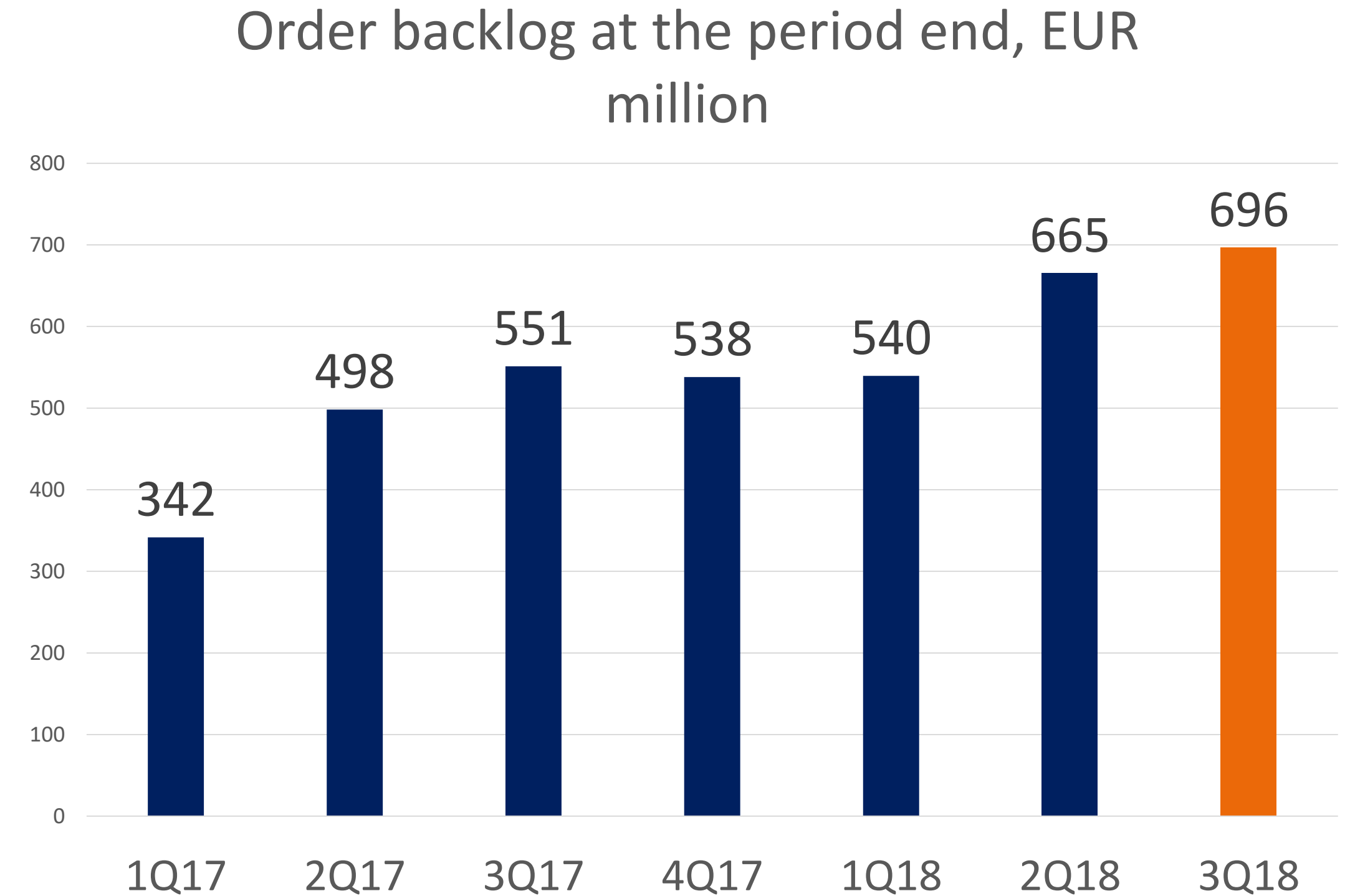
January-September 2018

- Operating profit was EUR 21.9 million and was 4.5% of net sales.
- Decline in operating profit stems from weaker project margins in the Social Care and Educational Premises and the Building Renovation service areas.
 - Several loss-making projects



Growth in order backlog

- Order backlog was EUR 696.3 million
- The order backlog increased in the Housing, Business Premises, and Building Renovation service areas, but declined in the Social Care and Educational Premises service area.



The background image shows three construction workers in a workshop or construction site. They are wearing orange high-visibility safety suits, white hard hats, and safety glasses. One worker in the center is holding a yellow measuring tape. The workers are focused on their task, which involves working with wooden panels. A semi-transparent white box with text is overlaid in the center of the image.

Outlook for 2018:

Lehto estimates that the Group's net sales for 2018 will grow by about 20-25% from 2017 (EUR 597.6 million in 2017) and operating profit is expected to be approximately 5-6% of net sales (2017: 10.8%).

Balance sheet and financing

Consolidated balance sheet, EUR million	30 Sep 2018	30 Sep 2017	31 Dec 2017
Non-current assets	34.3	26.7	25.1
Current assets			
Inventories	230.2	155.8	132.9
Current receivables	133.9	82.3	111.2
Cash and cash equivalents	48.0	46.9	68.0
Total assets	446.5	311.7	337.2
Equity	151.5	119.2	150.7
Financial liabilities	122.2	51.8	36.9
Prepayment received	88.2	79.4	69.3
Other payables	87.3	61.3	80.2
Total equity and liabilities	446.5	311.7	337.2

Business Premises



Business Premises – growing as planned

- Net sales increased by 52.3% year-on-year to EUR 164.5 (108.0) million.
- A total of 19 projects were completed during the review period. The major projects included an office and hotel building in Tikkurila, Vantaa
- Development phase started in Hippos2020 project
- A turnkey contract for the construction of the Ideapark shopping centre in Seinäjoki. The value of the contract is about EUR 65



Housing

Housing– strong growth continues

- Net sales in the Housing service area rose by 53.0% to EUR 197.1 (128.9) million.
- 27 housing projects, containing a total of 1,437 apartments, were completed in the period.
- 46 housing projects, containing a total of 3,031 apartments, were under construction at the end of the review period.
- The number of completed and unsold apartments stood at 10.
- Lehto signed a framework agreement with Avara for a housing portfolio that involves the construction of 340 homes.



Social Care and Educational Premises



Social Care and Educational Premises

– need to increase conceptual building

- Strong growth in this service area, with a 65.6% year-on-year increase in net sales to EUR 80.5 (48.6) million.
- 23 care and service units, two day care centres and one school were completed during the review period.
- There were 13 care and service units, three schools and one healthcare centre under construction at the end of the review period.
- Production was clearly geared towards unique and complex buildings.
 - multi-storied buildings
 - several floor solutions
 - solutions has had an unfavourable impact on project margins



Building Renovation

Building Renovation

– complete renovation didn't proceed as planned

- Net sales in Building Renovation fell by 4.3% to EUR 47.7 (49.9) million.
- Nine pipeline renovation projects and three complete renovation projects were completed
- 18 contracting-based pipeline renovation projects, three complete renovation projects and three developer contracting renovation projects recognised as income upon delivery were ongoing.
- Pipeline renovation business progressed as planned
- In complete renovation:
 - In spite of corrective measures, the profit margins of several projects further weakened during the third quarter, and the unit has several loss-making projects.
 - Project costs have increased as a result of higher-than-expected workloads and an increase in the prices of subcontracted work and certain raw materials.



Lehto reorganises its building renovation operations

- Lehto plans to discontinue its Building Renovation service area and to merge the building renovation operations into other service areas
- The planned changes do not cause need for reduction of personnel.

Operations in Sweden– first projects under construction

First business premise project is ready in Länna, Stockholm region

The day care projects starting

The modules for the day care units are manufactured in Lehto's factory in Hartola.

Lehto's main focus is on modular day care centre and school projects as well as in small, reasonably priced apartments



Lehto continues to expand and boost the factory manufacturing

	Oulainen 1	Oulainen 2	Oulainen 3	Oulainen 4	Oulainen 5	Ii	Humppila	Oulu	Hartola	Luohua
Roof elements							●			
Wall elements						●				●
Bathroom modules				●						●
Combined kitchen and bathroom module	●	●								
Apartment elements	●		●						●	
Windows	●									
Riser elements								●		
Building technology centers								●		
Fixture				●						
Concrete floor elements					●					

Next steps for the future

Focus on suitable projects

We focus more clearly on projects that serve our core competencies - in which Lehto can utilize its strengths.

Focus on our strengths

Planning management, standardised solutions and factory-made modules and elements – and development of those.

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construction business

